

Before the
UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting
(Proposal Two)

Docket No. RM2015-10

PUBLIC REPRESENTATIVE COMMENTS ON PROPOSED CHANGES IN
ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING (PROPOSAL TWO)

July 30, 2015

The Public Representative hereby offers comments in response to Commission Order No. 2548.¹ In that Order, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service Petition requesting that the Commission initiate a rulemaking proceeding to consider a proposal to change the approved analytical methods used in the Postal Service's periodic reports to the Commission.² That proposal is identified as Proposal Two.

In Proposal Two, the Postal Service seeks to replace the Imputed and Booked versions of the International Cost and Revenue Analysis (ICRA) report, which have been filed each year beginning in FY 2009 as a part of the Postal Service's Annual Compliance Report (ACR), with a single, unified version of the ICRA report. Petition at 1. For the reasons stated below, the Public Representative recommends that the Commission approve the Proposal Two Petition.

¹ Order No. 2548, Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Two), June 19, 2015.

² Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two), June 17, 2015 (Petition).

I. BACKGROUND

Proposal Two addresses the Commission's repeated request that the Postal Service present financial results for international mail products in one version of the ICRA report that is consistent with the Postal Service's financial statements.³ However, the existence of the Imputed and Booked versions, and the necessity of the Commission's request, arises from the origin and evolution of the ICRA report.

Origin of the ICRA Report. The ICRA report, in the form of the Imputed version, is a legacy of the regulation of international mail pursuant to the Postal Reorganization Act (PRA) of 1970. Under the PRA, the Postal Service possessed sole authority to set international mail rates. Such rates were not subject to pre-implementation or post-implementation regulatory review by the former Postal Rate Commission (Rate Commission). Nevertheless, the Rate Commission was given highly aggregated international mail revenue and cost data in omnibus rate proceedings, in which only domestic rates were set, to permit the verification of the Postal Service's revenue requirement for domestic rates.

The ICRA report originated as an internal Postal Service document to monitor the financial performance of both outbound and inbound international mail services. For outbound mail, revenues are generated from rates paid by U.S. mailers to the Postal Service for delivery of their outbound (U.S.-origin) mail abroad. Outbound mail expenses consist of Postal Service costs for processing, delivery, domestic transportation, international transportation, settlement payments, and all other.⁴ Settlement payments, which are generally the single largest outbound expense, represent Postal Service payments to foreign postal operators for the delivery of U.S.-

³ Order No. 1516, Order on Analytical Principles Used in Periodic Reporting (Proposals Six and Seven), October 24, 2012 at 7.

⁴ For outbound mail, delivery includes costs associated with collection activities; specifically, mail carriers collecting international mail from postal customers or collection boxes. All other represents those costs remaining after deducting the sum of processing, delivery, domestic transportation, international transportation and settlement payments from total international volume variable costs.

origin mail in the operator's territory. Revenue for inbound mail is derived from settlement payments to the Postal Service by foreign postal operators for the delivery of inbound (foreign-origin) mail in the U.S. Expenses for inbound mail represent Postal Service costs for processing, delivery, domestic transportation and all other.

The Imputed version estimates revenue and expenses from settlement payments for inbound and outbound mail, respectively, based upon known rates of reimbursement established through the Universal Postal Union (UPU) that vary by country. To calculate imputed expenses for outbound mail, settlement rates applicable to each country paid by the Postal Service are multiplied by the number of outbound pieces and/or the weight for such pieces, depending upon the formula that applies to each country. Imputed revenue for inbound mail is calculated by multiplying the current-year number and/or weight of inbound pieces by the applicable settlement rates, also determined by formula for each country, paid to the Postal Service.

However, the Imputed version of the ICRA report was not intended to develop financial results for external financial reporting. Instead, the Postal Service relied on another method to determine outbound expenses and inbound revenue from settlement payments that was included in the Postal Service's audited (public) financial statements. That method used an accrual each fiscal year to account for timing delays related to the process of reconciling and making final settlement payments between the Postal Service and the numerous foreign postal administrations involving the exchange of international mail during the year. This process generally concludes after the fiscal year in which the international mail was exchanged. As a result, the Postal Service's use of an accrual to estimate the total amount of inbound revenue and outbound expenses from final settlement for a fiscal year is referred to as the "booked" method because such amounts are included in the Postal Service's trial balance, which is used for financial reporting purposes. Historically, the booked amount of final settlement was also used in the Postal Service's Cost and Revenue Analysis (CRA) report.

In 1998, Congress amended the PRA. The 1998 Amendments directed the Rate Commission to submit to Congress each year a comprehensive report on the costs, volumes and revenues of the Postal Service's international mail services. The 1998 Amendments also directed the Postal Service to provide the Rate Commission with the necessary data to prepare its comprehensive report. The ICRA report was first presented to the Rate Commission to permit preparation of the FY 1998 annual international mail report. The Rate Commission subsequently issued eight international mail reports, covering FY 1998-2005.⁵

Evolution of the ICRA Report. The Postal Accountability and Enhancement Act (PAEA) of 2006 greatly expanded the regulatory authority of the renamed Postal Regulatory Commission. The PAEA also imposed additional reporting requirements on the Postal Service with respect to international mail. Under the PAEA, the Postal Service was directed to prepare the ACR, addressing the compliance of both domestic *and* international mail rates with statutory criteria. The Commission was granted new authority in three areas related to international mail: policy development related to the exchange of international mail, as well as pre-implementation and post-implementation review of international mail rates. In this regard, the Commission reviews domestic and international price changes proposed by the Postal Service prior to implementation and evaluates the financial results of both domestic and international mail products each year for compliance with the statutory criteria in its Annual Compliance Determination (ACD) report.

In its FY 2008 ACR, the Postal Service incorporated imputed revenues and expenses for various international mail products derived from the ICRA into the FY 2008 CRA rather than continue to use the booked amounts for inbound revenue and outbound expenses.⁶ This reflected the Postal Service's decision to eliminate the

⁵ See Docket Nos. IM99-1, IM2000-1, IM2001-1, IM2002-2, IM2003-1, IM2004-1, IM2005-1 and IM2006-1. The content of these reports are not public.

⁶ Annual Compliance Report, Fiscal Year 2008, Docket No. ACR2008, March 30, 2009 at 10 (FY 2008 ACR).

historical “mismatch” between international revenue and expenses presented in the ICRA report and the CRA report by changing the CRA to match the ICRA.⁷ However, the total revenue and expense figures presented in the CRA report did not match the same figures in the audited financial statements.

As a result, the Commission determined that the total revenues and expenses presented in the FY 2008 CRA report did “not comport with the same items reported in the audited financial statements published in the Postal Service Annual Report.” FY 2008 ACD at 13. The Commission therefore directed that for FY 2009, the Postal Service: 1) not include imputed revenue and expenses for international mail in the CRA report, and 2) provide revenue and expenses for all products in the CRA that sum to the amounts presented in the Postal Service’s audited financial statements. *Id.*

In its 2009 ACR, the Postal Service introduced the Booked version of the ICRA report which is developed by adjusting financial results presented in the Imputed version to present financial results for international mail products consistent with the Postal Service’s audited financial statements. The Postal Service also continued to file the Imputed version of the ICRA report because it attempts to estimate the actual economic activity for international mail flows that incur international transportation costs and settlement payments during a fiscal year. Petition at 1.

For its FY 2012 ACR, the Postal Service implemented the Foreign Post Settlement (FPS) system to develop inbound international revenue, pieces and weight. The FPS system relies on volume and weight data from actual transaction billing documents and electronic messaging provided by foreign postal operators. Order No. 1516 at 3-4. The FPS system replaced use of the booked amount based on an accrual to estimate total international mail revenues presented in the audited financial statements. It also replaced a separate methodology used to disaggregate total

⁷ Order No. 339, Order on Analytical Principles Used in Periodic Reporting (Proposals Three through Nineteen), November 13, 2009.

international mail revenue by inbound product presented in the Booked version of the ICRA report.

As a result, the FPS system removed some, but not all, of the differences between the Imputed and Booked versions of the ICRA report. Inbound pieces and weight presented in the Booked and Imputed versions of the FY 2012 ICRA report (and subsequent reports) were the same as presented in the Revenue, Pieces and Weight (RPW) report. *Id.* at 6. In addition, inbound revenue presented in the Booked version of the ICRA report was the same as in the RPW report. *Id.* However, the FPS system did not supplant the method of calculating inbound revenue presented in the Imputed version of the ICRA report. Moreover, as a system for calculating inbound revenue, the FPS system did not address differences between the Imputed and Booked versions of the ICRA report involving the calculation of outbound expenses from settlement payments.

II. COMMENTS

Proposal Two alters the format for presenting financial results for international mail products by replacing the Imputed and Booked versions of the ICRA report with a Unified version of the ICRA report. The Postal Service points out that the differences between the two reports for each of the least three years has been one percent or less, thereby diminishing the necessity for separate Imputed and Booked versions of the ICRA report. It adds that a Unified version of the ICRA will streamline the process of producing the ICRA report, and reduce the number of items for Commission review of the ICRA report. The Postal Service also notes that replacing the Imputed and Booked versions with a single Unified version will eliminate the need to identify the version of the ICRA under discussion and thereby avoid potential confusion between the versions. Petition at 3.

Production of the Unified version involves incorporating a number of files and calculations from the Imputed version into the Booked version of the ICRA report. *Id.* at

2. The Postal Service generally describes the changes required. Preliminary cost calculations by country and country group developed in the Imputed version are maintained and incorporated into a new tab in the Unified version of the ICRA report.⁸ Also, a number of calculations performed in the Imputed version related to domestic costs that are used in the Booked version are unchanged. These imputed calculations will continue to be used in the Unified version. *Id.* at 5. In addition, two worksheets are moved from the Imputed version into the Unified version. *Id.* The first is the CRA staging worksheet, which develops domestic mail processing, delivery and other costs. The second, the CS14 staging worksheet, which currently transfers domestic transportation costs from the Excel workbook file, Domestic Tran Calcs, into the Imputed version, is updated with new links to reference the Unified version. *Id.* Finally, because Imputed costs will no longer be available, a minor adjustment to international transportation costs for NSAs that is currently based on Imputed costs will continue to be performed using Unified costs resulting in very small changes in the calculated final costs. *Id.* at 5-6.

The Postal Service filed (under seal) library reference USPS-RM2015-10/NP1, which presents the FY 2014 financial results for market dominant and competitive international mail products that reflect the changes implemented to develop the Unified version of the ICRA report.⁹ The library reference also includes a separate Excel file, Attachment1.xls, which compares the FY 2014 financial results under the Unified version with the same results under the Booked version of the ICRA report.¹⁰ Specifically, Attachment1.xls calculates the differences cell-by-cell based upon a

⁸ *Id.* at 4-5. The Postal Service states that these calculations are still necessary because country-level results are not developed or reported in the Postal Service's trial balance. *Id.* at 5.

⁹ Docket No. RM2015-10, Library Reference USPS-RM2015-10/NP1, Reports (Unified).xls.

¹⁰ For the FY 2014 Booked version of the ICRA report, see Docket No. ACR2014, Library Reference USPS-FY14-NP2 (Revised 2-5-15), Reports (Booked).xls, worksheet tabs "A Pages (md)" and "A Pages (c)."

comparison of the FY 2014 financial results shown in worksheet tabs “A Pages Summary”, and “A Pages (md)” and “A Pages (c)” of the Booked version and the same worksheet tabs in the Unified version.

There are no differences in revenue between the Booked and Unified versions. The Postal Service observes that all differences arise because of changes in volume variable costs, which thereby change the corresponding calculation of contribution to institutional costs. *Id.* at 4. The Postal Service characterizes all differences in volume variable costs as “very small, *i.e.*, a difference of less than one percent. *Id.* at 3.

III. CONCLUSION

The Public Representative recommends Commission approval of Proposal Two. Upon its approval, Proposal Two will exhibit financial results for international mail in a single version of the ICRA report that is consistent with the Postal Service’s audited financial statements. As the Postal Service observes, Proposal Two will streamline the process of producing the ICRA report, and it will reduce Commission efforts to review the ICRA report. More importantly, replacing the Imputed and Booked versions with a Unified version will eliminate the current Postal Service practice of presenting financial models for NSAs using Imputed financial results as well as eliminate the need for Commission review of such NSAs for the ACD report based upon the Booked version of the ICRA report.

The Public Representative submits the foregoing Comments for the Commission’s consideration.

Respectfully submitted,

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